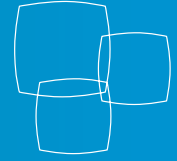




Credit Condition Trends 2009–2013



www.ic.gc.ca/SMEresearch

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About the survey

Industry Canada maintains close contact with the small business community as part of its monitoring and data collection activities. Since 2009, Industry Canada has conducted various surveys on the borrowing activities of small businesses. Two in particular include the *Credit Conditions Survey (CCS)*¹ and the *Survey on Financing and Growth of Small and Medium Enterprises (SFGSME)*.² The CCS is implemented in years when the SFGSME is not conducted. These surveys aim to monitor small and medium-sized enterprises (SMEs) access to financing and to provide key information on small businesses lending conditions to the business community, lenders, policy makers and academics.

Overview

- This analysis highlights the changes and developments in small business credit conditions between 2009 and 2013, and aims to facilitate understanding of credit-market trends for small businesses.
- Credit conditions for small businesses remained stable in 2013.
- Start-ups and smaller businesses continue to face relatively greater difficulties accessing financing.
- Access to financing has improved for small business exporters and innovators.

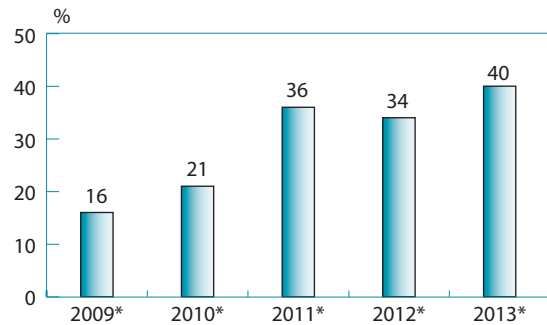
External Financing Need

In 2013, 40 percent of small businesses requested external financing (debt, lease, equity, trade credit, and/or government) compared to 16 percent in 2009 (Figure 1).

¹ In 2009, 2010, 2012 and 2013, CCS collected data from more than 2,500 small employer businesses across the country. For more information concerning the CCS, consult the SME Research and Statistics website (www.ic.gc.ca/eic/site/061.nsf/eng/h_02192.html).

² The SFGSME collects information on SMEs' financing needs, growth, international business activities, innovation and intellectual property, and owner characteristics. The most recent survey was conducted by Statistics Canada in 2011. For more detailed information concerning the SFGSME, consult the SME Research and Statistics website (www.ic.gc.ca/eic/site/061.nsf/eng/h_02774.html).

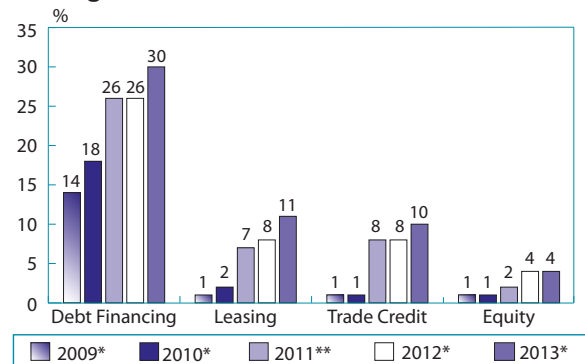
Figure 1: Request rates for external financing were up in 2013



Sources: *Industry Canada, *Credit Conditions Survey*, 2009, 2010, 2012 and 2013; **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Thirty percent of small businesses requested specifically debt financing (mortgages, term loans, lines of credit, and/or credit cards) in 2013, representing a 4 percentage points increase from 2012, and a 16 percentage points increase from 2009 (Figure 2).

Figure 2: Small businesses requested more of all types of financing

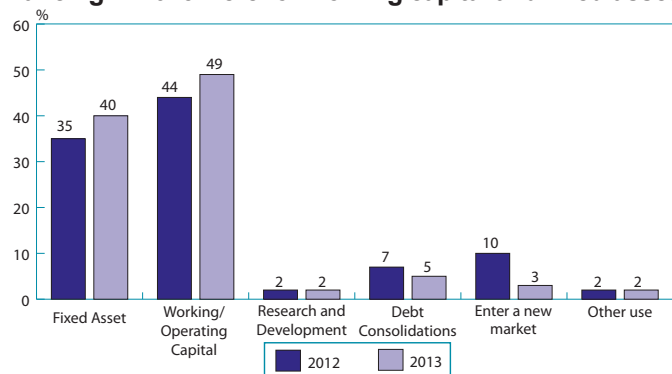


Sources: *Industry Canada, *Credit Conditions Survey*, 2009, 2010, 2012 and 2013; **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Reasons for Seeking/Not Seeking Financing

Most small businesses that requested financing in 2013 intended to use it to support day-to-day working and operational capital expenditures (49 percent) and to purchase fixed assets (40 percent) (Figure 3).

Figure 3: The main reason small businesses requested financing in 2013 were for working capital and fixed assets



Source: Industry Canada, *Credit Conditions Survey*, 2012 and 2013.

Three percent of the small businesses that requested financing in 2013 planned to use it to enter a new market, a drop of 7 percentage points from 2012.

In 2013, 86 percent of small businesses did not seek financing because it was not needed (Table 1).

Table 1: The main reason small businesses did not request financing was that it was not needed

Reason	2010* (%)	2011** (%)	2012* (%)	2013* (%)
Financing not needed	89	88	86	86
Thought request would be turned down	3	3	4	3
Applying for financing too difficult	3	2	5	2
Cost of financing too high	2	1	2	2

Sources: *Industry Canada, *Credit Conditions Survey*, 2009, 2010, 2012 and 2013; **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

The number of discouraged borrowers, businesses that did not request financing because they thought the request would be turned down, slightly dropped to 3 percent in 2013.

The percentage of small businesses that did not seek financing because they thought the application process would be too difficult fell, dropping from 5 percent in 2012 to 2 percent in 2013.

About 2 percent of small businesses that did not request financing because they thought that the cost of financing was too high.

Access to Debt Financing

Small businesses' access to debt financing has remained fairly stable since 2010 (Table 2).

The ratio of funds authorized-to-requested was 89 percent in 2013, consistent with recent years and well above 2009 recessionary levels (72 percent).

Table 2: Access to debt financing remained stable for small businesses in 2013 as measured by the amount authorized-to-requested ratio

Year	Request Rate (%)	Approval Rate (%)	Authorized-to-Requested Ratio (%)
2009*	14	79	72
2010*	18	88	88
2011**	26	89	91
2012*	26	89	90
2013*	30	85	89

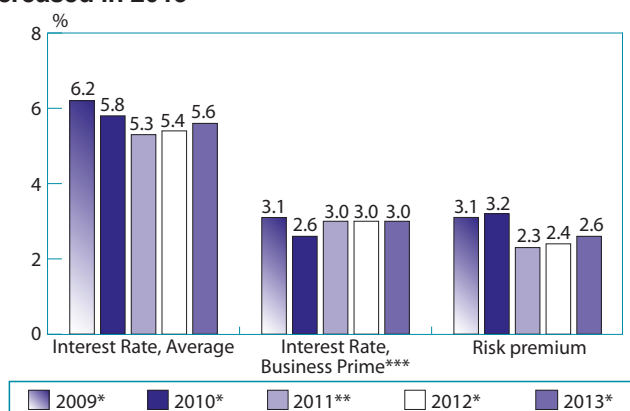
Sources: *Industry Canada, *Credit Conditions Survey*, 2009, 2010, 2012 and 2013; **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Interest Rates

Average interest rates on loans and non-residential mortgages increased to 5.6 percent in 2013, from 5.4 percent in 2012 and 5.3 percent in 2011.

Lenders' risk perception has improved since the last recession. The business risk premium³ was 2.6 percent in 2013, down 0.5 percentage points from the level in 2009 (Figure 4). The risk premium rate in 2013 ticked up 0.2 percentage points from the rate in 2012, and 0.3 percentage points from 2011.

Figure 4: Average interest rates on debt financing slightly increased in 2013



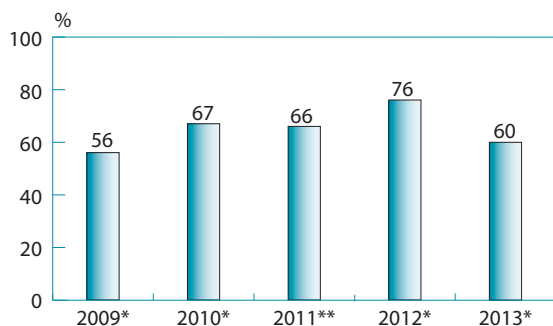
Sources: *Industry Canada, *Credit Conditions Survey*, 2009, 2010, 2012 and 2013; **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011; ***Bank of Canada.

Collateral Rates

Lenders required less collateral to secure their loans in 2013. While as high as 76 percent of small businesses were required to pledge collateral in 2012, only 60 percent were required in 2013 (Figure 5).

³ The business risk premium is the difference between the average small business interest rate and the business prime rate (the rate charged to the most credit worthy borrowers).

Figure 5: Collateral rates for debt financing have decreased significantly in 2013



Sources: *Industry Canada, *Credit Conditions Survey*, 2009, 2010, 2012 and 2013; **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011; ***Bank of Canada, *Senior Loan Officer Survey*, 2013.

The decrease of collateral requirements signals an improvement in non-pricing lending conditions, and is consistent with findings from the Bank of Canada.⁴

Access to Debt Financing by Type of Business

Financing request rates are positively related with the size of the business (Table 3). In 2013, 24 percent of businesses with 1-4 employees requested debt financing compared to 33 percent of businesses with 5-19 employees and 43 percent of businesses with 20-99 employees. A similar relationship was recorded in previous years.

Approval rates were also positively related to business size in 2013, increasing from 81 percent for businesses with 1-4 employees to 84 percent for businesses with 5-19 employees and 93 percent for businesses with 20-99 employees. Greater year-to-year fluctuations in sales and earnings, and historically higher loan default rates explain why the smaller businesses have the greater difficulties accessing financing.⁵

A similar pattern was seen for younger businesses in 2013. The request rates for start-ups (2 years old or younger) (36 percent) and young businesses (3 to 10 years old) (36 percent) were significantly higher than for older and more established businesses (more than 20 years old) (29 percent). However, the approval rate was much lower (81 percent and 82 percent versus 87 percent respectively). This is likely because start-ups and young businesses have minimal earnings, shorter credit histories, and less collateral to pledge as security.

Consistent with most past years, small business exporters and innovators were more likely to request financing than non-exporters (36 percent versus 30 percent) and non-innovators (38 percent versus 21 percent) in 2013. Unlike most past years, however, approval rates for exporters and innovators were higher than those for non-exporters (90 percent versus

84 percent) and non-innovators (86 percent versus 83 percent) in 2013. This finding is aligned with government efforts to promote export oriented and innovative businesses seeking financing to support their growth and expansion initiatives.

In 2013, request rates were higher in western Canada (36 percent in Alberta, and British Columbia and Territories) than in other Canadian regions (Table 3). In addition, request rates were highest in the construction sector, and the agriculture and fishing, forestry, and oil and mining sector—two of the most highly capital intensive sectors.⁶

Table 3: Smaller and younger businesses faced greater difficulties accessing financing

	Request Rate (%)	Approval Rate (%)
<i>All Small Businesses (1–99 employees)</i>	30	85
<i>Employment Size</i>		
1 to 4 employees	24	81
5 to 19 employees	33	84
20 to 99 employees	43	93
<i>Export</i>		
Exporter	36	90
Non-exporter	30	84
<i>Age of Business</i>		
2 years old or younger	36	81
3 to 10 years old	36	82
11 to 20 years old	29	84
more than 20 years old	29	87
<i>Innovation Activities Developed or Introduced</i>		
Innovator	38	86
Non-Innovator (none of the above)	21	83
<i>Region</i>		
Atlantic	28	89
Quebec	27	87
Ontario	29	80
Manitoba-Saskatchewan	28	90
Alberta	36	85
British Columbia and Territories	36	86
<i>Industry</i>		
Accommodation and Food	28	75
Construction	40	88
Manufacturing	37	89
Agriculture and Fishing, Forestry, and Oil and Mining	42	93
Professional Services	24	89
Transportation/Warehousing	34	80
Retail Trade	28	83
Wholesale Trade	32	90
Retail and Wholesale	31	83

Source: Industry Canada, *Credit Conditions Survey*, 2013.

⁶ Seens, Daniel. *Small Business Access to Financing: Request and Approval Rates, Interest Rates, and Collateral Requirements (2000–2010)*. Industry Canada. 2013.

This analysis was prepared by May Song, an economist in the Small Business Branch.

If you have questions or comments about the content of this analysis, please email smers-rspme@ic.gc.ca.

All data used for the purpose of this analysis can be accessed from the SME Research and Statistics Website (www.ic.gc.ca/SMEresearch).